

STATEMENT OF PURPOSE

RS23266

The production exemption in the Sales Tax Act allows an exemption from sales and use tax for certain tangible personal property used in the production process. However, an exception exists for hand tools that cost \$100 or less, making these items subject to tax regardless of how they are used. The \$100 exception has been in place and fixed at that amount since the inception of the Sales Tax Act in 1965. The \$100 amount no longer meets the policy goals the exception was designed to address, turning into disagreements over the years about whether small items are hand tools such as consumable paint sticks used in the dairy industry. The hand tool exception is becoming difficult for taxpayers to understand and comply with and for the Tax Commission to administer. To simplify the Sales Tax Act, the proposal repeals the hand tool exception.

FISCAL NOTE

A decrease in sales tax collections of \$1.5 million.

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